

## PROPOSED 809/APPAREL PILOT PROGRAM

### REVITALIZING THE U.S. TEXTILE INDUSTRY & PHILIPPINE APPAREL INDUSTRY CREATING OPPORTUNITIES FOR U.S. RETAILERS

The Philippine garment industry is looking to preserve and expand their market in the United States via an 809/Apparel Pilot Program. The proposed program's component that is most interesting to the U.S. apparel buyers is the cut and sew component, under which they would be able to import certain garments duty-free with no yarn or fabric requirements. Articles subject to the cut and sew rule would be non-sensitive products that do not compete with U.S. textile industry customers in the Western Hemisphere.

The Philippines has a distinguished needle capability that can produce sophisticated fashion garments such as coats, suits, dresses and skirts, which are generally not made in the CAFTA/NAFTA/CBI region. The components of the program that are outlined below are an innovative solution that would provide benefits to the U.S. apparel and retail industries, U.S. textile industry and the Philippine garment/apparel industry.

On February 6, 2009, Bob Mele of Ann Taylor and Julie Hughes of USA-ITA met with President Gloria Macapagal Arroyo and Trade and Industry Secretary Peter B. Favila in Washington, D.C. The wide-ranging discussion covered the current situation of the Philippine garment industry, the Doha Round, and the development of economic zones in relation to the proposed program. President Arroyo emphasized the need to work together to develop a textile and apparel program that is a "win-win" for the industries in both the Philippines and in the United States.

On February 24, 2009, Mr. Mele and Ms. Hughes met with Lawrence Delos Santos, the President of Hamlin/Hoffen Industries and the President of the Confederation of Garment Exporters of the Philippines (CONGEP), Mark Pressley, the General Manager of Smart Shirts in the Philippines and the External Vice President of CONGEP, and Maria Teresita Jocson-Agoncillo, the Executive Director of CONGEP. A strong case was made for the concept of the program and currently the Philippine industry is gathering key information for a business case it intends to present to the U.S. apparel and textile industry. A meeting is being organized with the U.S. apparel buyers in New York on March 19, 2009.

The basic components of the proposed 809/Apparel Pilot Program include:

#### Duration

- The initial time frame for the pilot program should be of sufficient duration to give certainty to the trade and incentive for investment in both the United States and the Philippines.

- A thorough review of the pilot program would begin after the first year of the program to determine if any modifications are necessary. The review would be conducted by a joint U.S.-Philippine government and private sector commission that would report its findings to Congress no later than 3 years after the implementation of the pilot program.

#### Scope for “809” Portion

- The Philippine preference is that the program cover all apparel (and made-up goods if of interest to the U.S. industry), but at least should cover categories 338/339, 347/348, 352/652, 638/639, 640, and 647/648.

#### General Rules for “809” Portion

- Garments eligible for this program that are cut and wholly assembled in the Philippines for which the fabrics comprising the essential character of the garment are knit or woven in United States (from U.S. formed yarns) would enter the U.S. free of duty.
- Garments eligible for this program that are cut and wholly assembled in the Philippines for which the yarns in the fabrics, which must be wholly formed in the Philippines that comprise the essential character of the garment are spun or extruded in United States would enter the U.S. at a reduced duty rate (either 50% of the MFN rate, or the value of U.S. yarns subtracted from the dutiable value).
- In all the above, if desired by U.S. industry, elastomeric yarn must originate in either the United States or the Philippines.
- U.S. formed fabrics must be dyed and finished in the United States. Nonetheless, apparel articles may be embroidered or undergo stone-washing, enzyme-washing, acid washing, perma-pressing, oven-baking, bleaching, garment-dyeing, screen printing or other similar processes in the Philippines.
- U.S. fabric (or yarns) must be shipped directly to the Philippines. Apparel eligible for the pilot program must be shipped directly to the United States (cannot enter the customs territory of another party).
- The U.S. and Philippines Governments, with their respective private sectors, will work with shipping lines to negotiate reduced fees on U.S. outbound cargo (which often go to Asia empty) to make the use of U.S. textile products even more attractive to Philippine producers.
- The Government of the Philippines will provide enhanced market access to their country, and work with the U.S. industry to provide markets to other ASEAN countries.

#### Enforcement

- The program shall include provisions to ensure strict enforcement of all aspects of the pilot program, and shall include customs-to-customs dialogue and cooperation.

- After quotas expired in 2005, the Philippines was one of the few countries to sign a customs cooperation agreement that allows U.S. CBP to conduct “jump team” visits to verify production. That agreement will be maintained.
- The Philippines is willing to establish an Electronic Visa Information System (ELVIS) to further assist with enforcement.
- The Philippines is willing to establish procedures that allow the Office of Textiles and Apparel (OTEXA) to obtain information when U.S. fabrics are exported to allow for monitoring and verification before the apparel shipments reach the United States. The information provided upon export of the fabrics would include, among other things, the name of the apparel importer, HTS number of the apparel to be made from the fabric, and the quantity of the apparel to be made (imported into the U.S.) from the fabric.

#### Cut/Sew Rules for Selected Products

- Recognizing that the success of the 809 pilot program requires a competitive sewing industry in the Philippines that can provide U.S. retailers with the broadest range of products possible, the program also would provide duty-free benefits for certain non-import sensitive products such as women's cotton coats (category 335). Other categories to be considered are: 237, 239, 335, 336/636, 340, 351/651, 435, 436, 442, 444, 448, 341/641, 644, 649, 350/650, 635, 342/642, 634, 652-women's only, 835, and 842.
- The duration of this aspect of the pilot program would be subject to the same duration and review as outlined on the 809 portion.

The ever-growing challenges of international competition require new thinking, bold action and equal determination by the U.S. textile industry and the Philippine garment industry. Working together in developing a pilot program provides the best hope that our respective industries will succeed in the coming years.